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Software Product Support Organisations must be Selective when Targeting Market Segments

Among the major considerations influencing support organisations when constructing business plans over the medium and longer term are the size and growth potential of various markets.

Assuming that other criteria are met (not least the capability of the organisation's staff to offer an effective service to a given market), then the questions of size and growth should be considered together rather than in isolation. A large market that is rapidly contracting, for example, will not be viewed as favourably as a currently small market that is likely to grow vigorously.

Ways of Viewing the European Software Products Market

For the purposes of illustration, this Research Bulletin will consider markets through the medium of a four-level hierarchy. For analysis purposes, each succeeding level after the first is a subset of the preceding level.

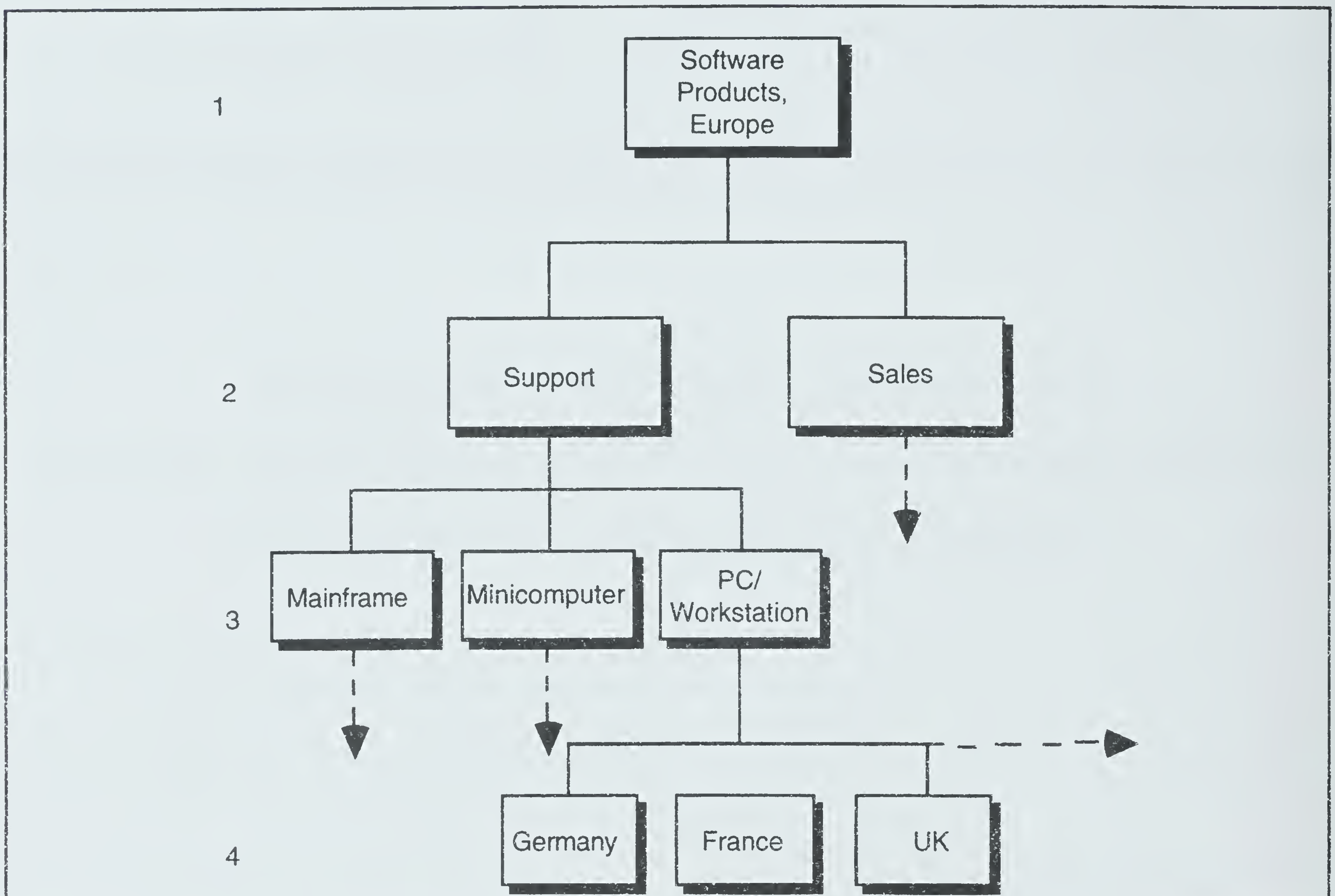
Exhibit 1 contains a partial illustration of markets arranged in such a hierarchy.

It is important to note that is possible to construct a large number of alternate hierarchies for the purposes of viewing any major market. In Exhibit 1, for example, countries are placed at the lowest level; for other purposes they could be placed at the first, second or third level in another view of the marketplace. For more sophisticated segmentation of the market, more than four levels may be required.

Analysis of INPUT's latest forecasts for the European market for software product support illustrate how careful targeting of market segments is preferable to high-level consideration of major markets.

Exhibit 1

Possible Hierarchical View of European Software Products Market



Source: INPUT

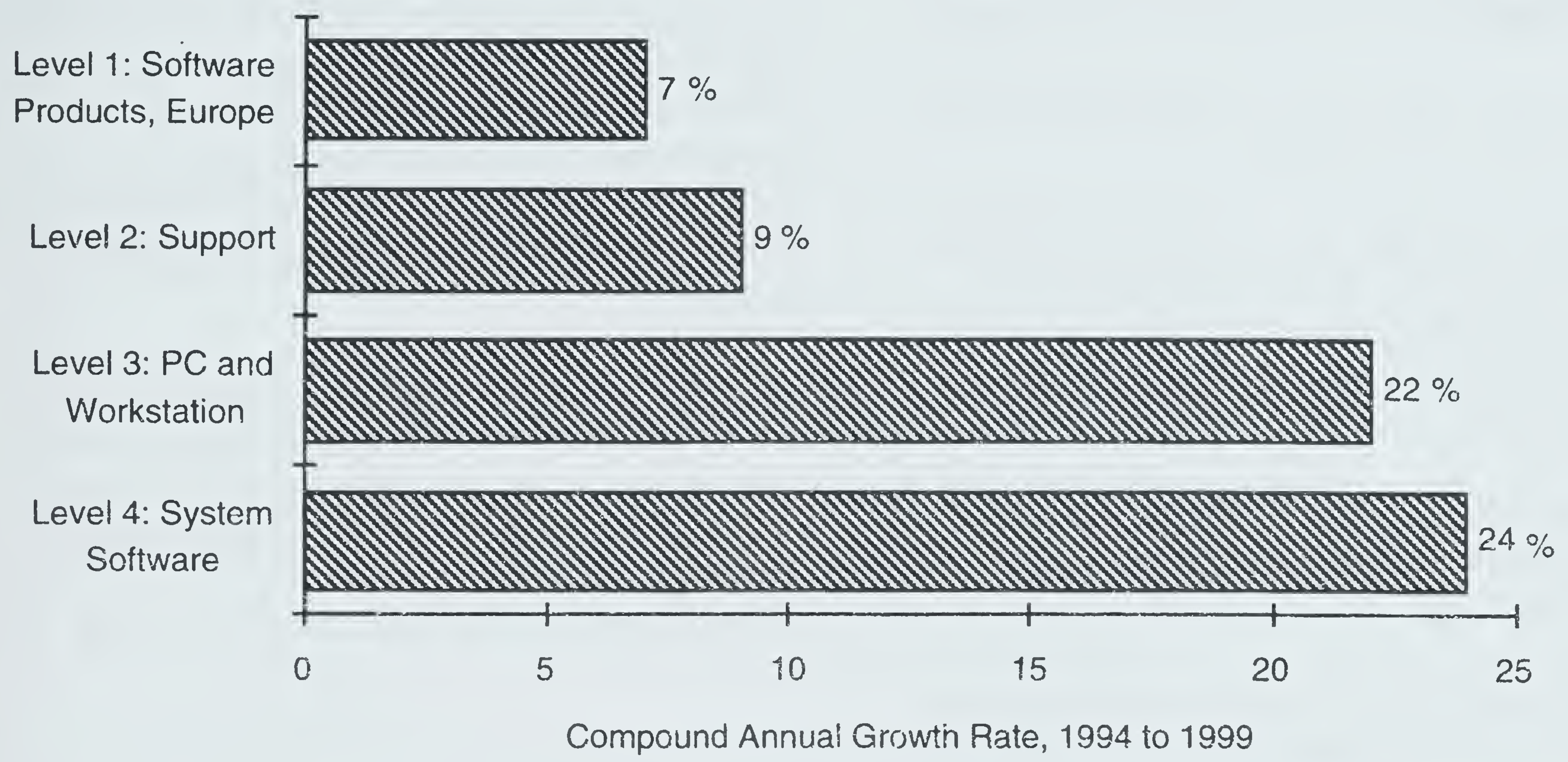
Finding Attractive Market Sectors

Exhibit 2 shows how by navigating through the levels of one possible hierarchy, one can locate a desirable market segment whose growth potential is greater than the major market of which it is a part.

In contrast Exhibit 3 uses a different hierarchical view to show how one can locate a market segment which is to be avoided because it is forecast to contract although overall growth is forecast for its major market.

Exhibit 2

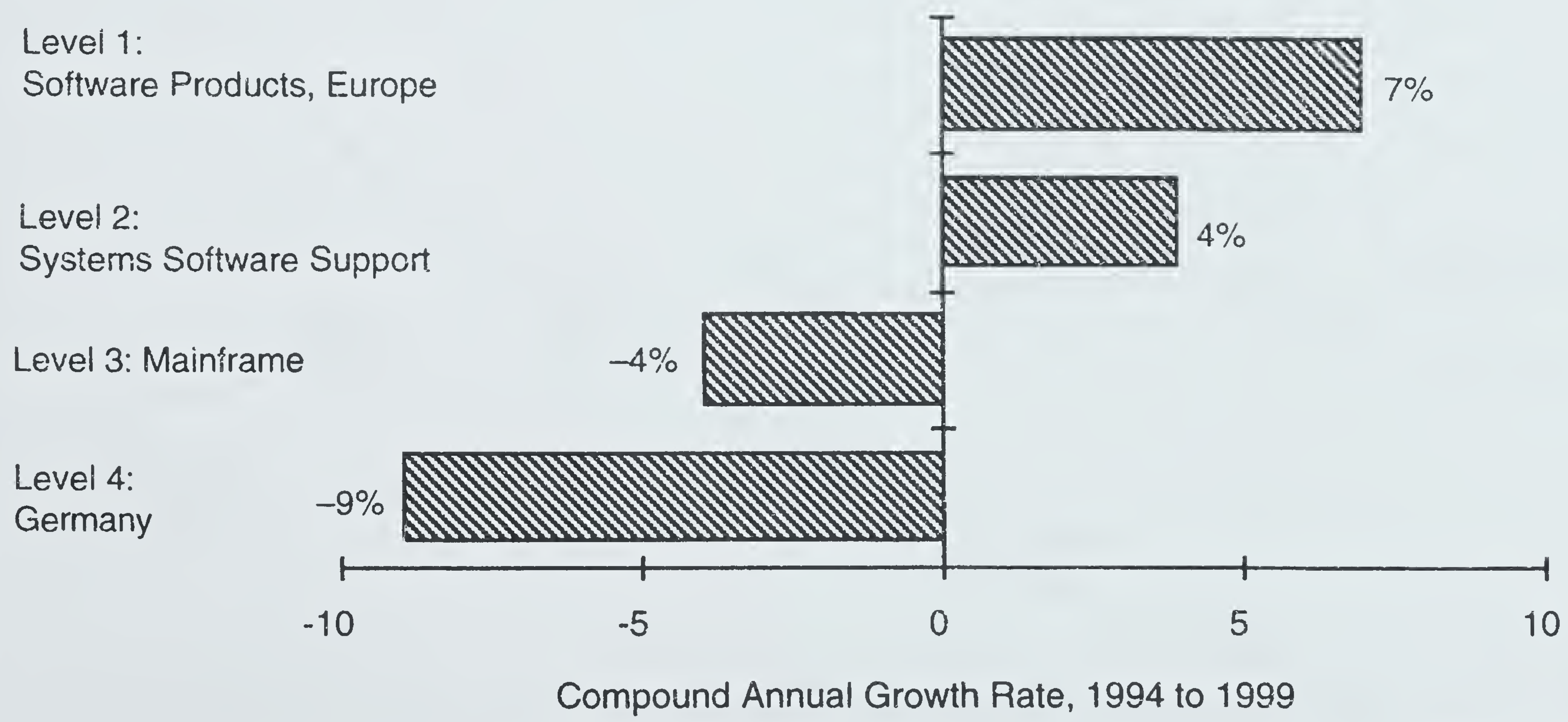
Finding a Market Segment with High Growth Potential



Source: INPUT

Exhibit 3

Finding a Market Segment with Negative Growth Potential



Source: INPUT

Future Growth More Important than Current Size

Exhibits 2 and 3 showed the importance of considering the size of a marketplace in terms of trends, particularly growth or contraction.

In principle, rapid growth is attractive, rapid contraction to be avoided.

It is also important to consider the absolute size of a market. Whilst rapid growth is attractive, a very small market may not be able to satisfy the aspirations of a support organisation.

On the other hand, a contracting market may still be worth considering if it remains relatively large.

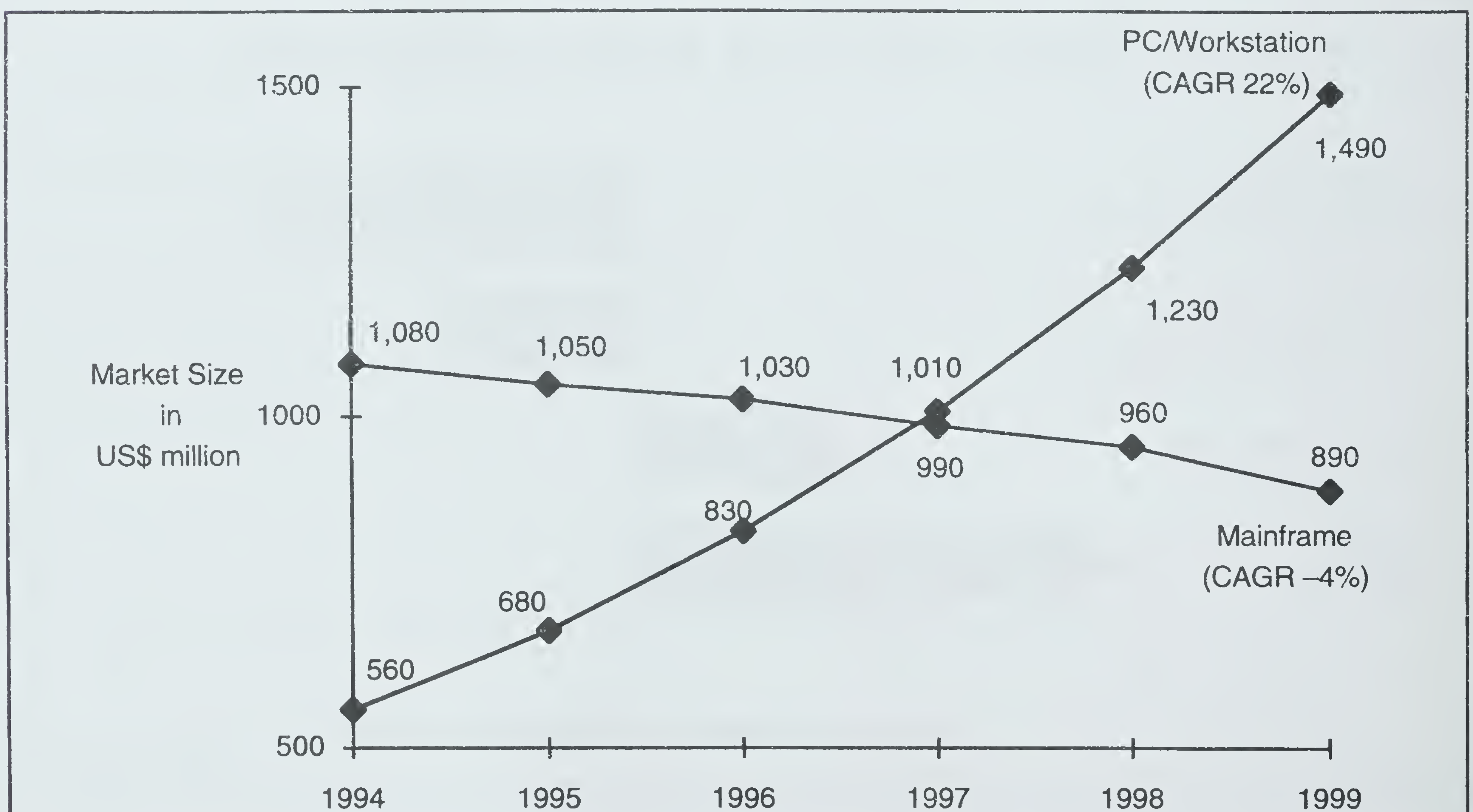
Support organisations must draw their own conclusions based upon their own goals, but they may find food for thought in Exhibit 4, which contrasts INPUT's forecasts for the European PC/Workstation and mainframe support markets.

In 1994, the mainframe market is significantly larger than the PC/Workstation market, being nearly twice its size. By 1999, however, the situation has changed radically; with the PC/Workstation market having overtaken the mainframe market in 1997 and now having a good lead.

The decline of the mainframe support market is gradual, and over the six year period from 1994 to 1999 total forecast support revenues for mainframe support ($6,000million) are marginally greater than those for PC/Workstation ($5,8000million).

Exhibit 4

Comparison of European Software Support Markets for PC/Workstation and Mainframe, 1994 to 1999



Source: INPUT

Many Ways of Viewing the Marketplace

This Bulletin has illustrated various ways of segmenting the software support marketplace, including:

- By software type:
  - System software
  - Applications software
- By Country
- By Hardware platform:
  - Mainframe
  - Minicomputer
  - PC and Workstation

Other ways of segmenting the software support market should be carefully considered by vendors who wish to identify markets worth tackling. INPUT has observed the following methods of segmentation to be of interest:

- Application sub-category:
  - System software:
    * Systems control
    * Operations management
    * Applications development
  - Applications software:
    * Cross-industry
    * Industry-specific
- Operating system:
  - Proprietary
  - UNIX and derivatives
  - DOS
  - DOS/Windows
  - OS/2
- Supplier channel:
  - Hardware vendors
  - Software vendors/ISVs
  - 3rd party vendors (including professional services companies)

This Research Bulletin is issued as part of INPUT's Software Product Support Programme–Europe. If you have any questions or comments on this bulletin, please call your local INPUT organisation or Chris Cadman at INPUT, 17 Hill Street, London, W1X 7FB, UK, 44 (0) 71 493 9335.

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INPUT WORLDWIDE

Frankfurt
Sudetenstraße 9
D-35428 Langgöns-Niederkleen
Germany
Tel. +49 (0) 6447-6005
Fax +49 (0) 6447-7327

London
17 Hill Street
London W1X 7FB
England
Tel. +44 (0) 71 493-9335
Fax +44 (0) 71 629-0179

New York
400 Frank W. Burr Blvd.
Teaneck, NJ 07666
U.S.A.
Tel. 1 (201) 801-0050
Fax 1 (201) 801-0441

Paris
24, avenue du Recteur Poincaré
75016 Paris
France
Tel. +33 (1) 46 47 65 65
Fax +33 (1) 46 47 69 50

San Francisco
1881 Landings Drive
Mountain View
CA 94043-0848
U.S.A.
Tel. 1 (415) 961-3300
Fax 1 (415) 961-3966

Tokyo
Saida Building, 4-6,
Kanda Sakuma-cho
Chiyoda-ku, Tokyo 101
Japan
Tel. +81 3 3864-0531
Fax +81 3 3864-4114

Washington, D.C.
1953 Gallows Road
Suite 560
Vienna, VA 22182
U.S.A.
Tel. 1 (703) 847-6870
Fax 1 (703) 847-6872

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